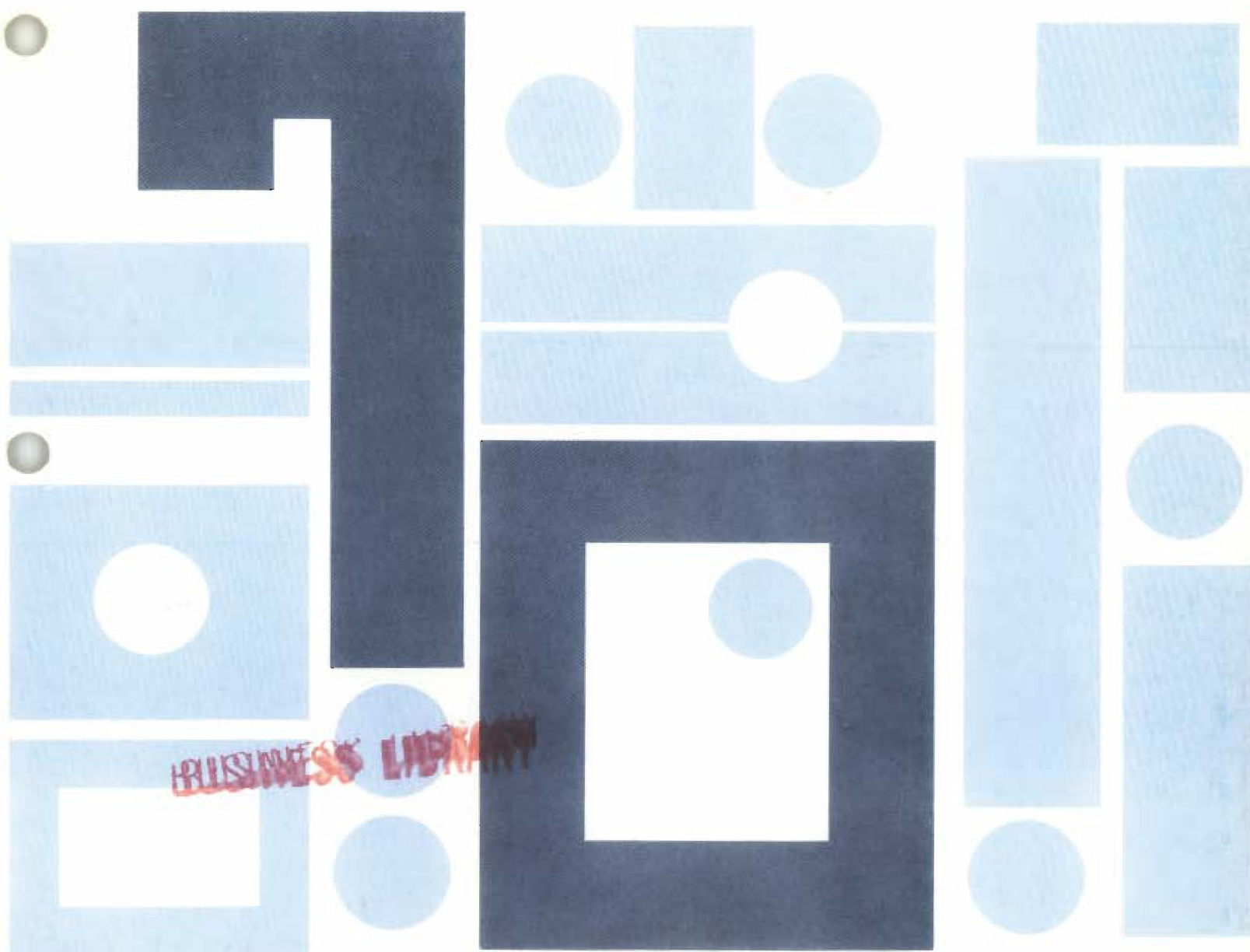


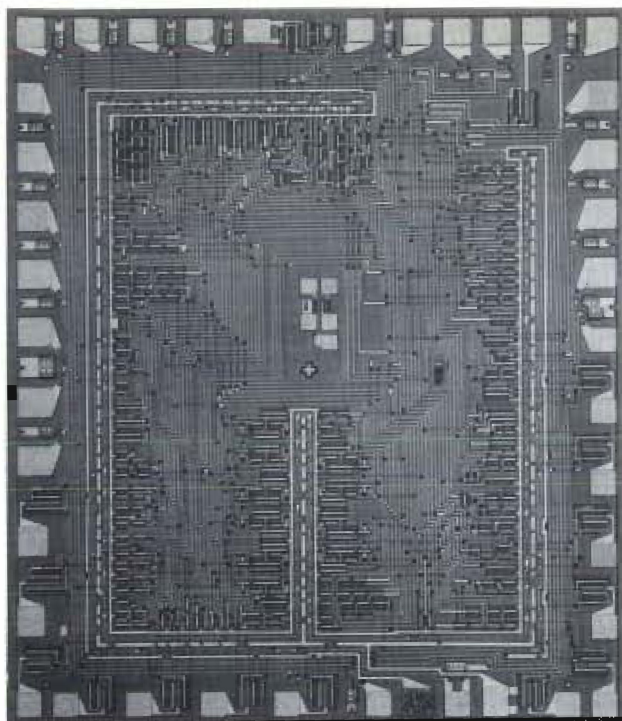


commodore twelfth annual report **1970**

SEP 13 1971



COMMODORE BUSINESS MACHINES (CANADA) LIMITED



This is a 1970 brain cell in the mind of a Commodore Electronic Calculator, magnified 50 times. Its actual size is barely one-eighth inch square. Yet, it represents the most important advance to date in the world of electronics.

It is a tiny chip of silicon onto which a multitude of complete, or integrated circuits have been built by a complex semi-conductor micro-process.

Its name is Large Scale Integration (LSI). Since one LSI chip does the work of 700 vacuum tubes, this new discovery is rapidly finding application in space projects, household appliances, computers and communications.

For Commodore, LSI has opened a bold new frontier and has enabled us to successfully introduce low cost, easy-to-operate electronic figuring equipment to the business community.



*This is a representation
of an actual LSI chip.*

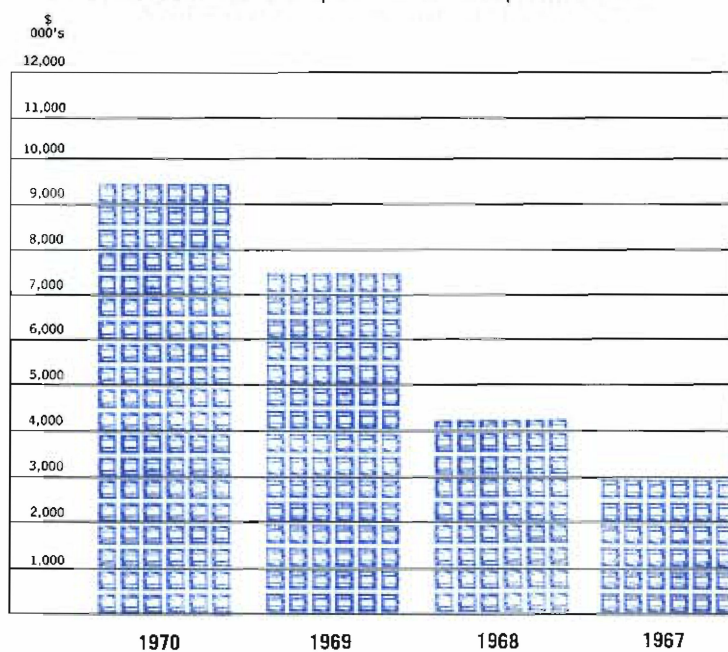


Financial Highlights

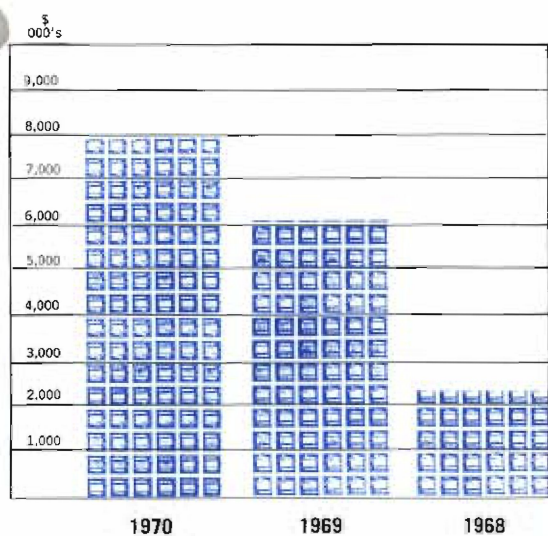
Financial Highlights <i>United States Currency</i>	1970	1969	% Increase
Sales	\$9,418,321	\$7,477,426	26%
Earnings <i>(Before extraordinary items, 1970 \$(52,230), 1969 \$203,500)</i>	\$ 646,412	\$ 467,476	38%
Earnings Per Share <i>(Before extraordinary items, 1970 \$(.04), 1969 \$.17)</i>	\$.54	\$.41	32%
Shares Outstanding	1,197,487 ^{5/20}	1,146,241 ^{5/20}	
Working Capital	\$3,379,449	\$2,480,096	36%
Shareholders' Equity	\$3,613,362	\$2,785,036	30%



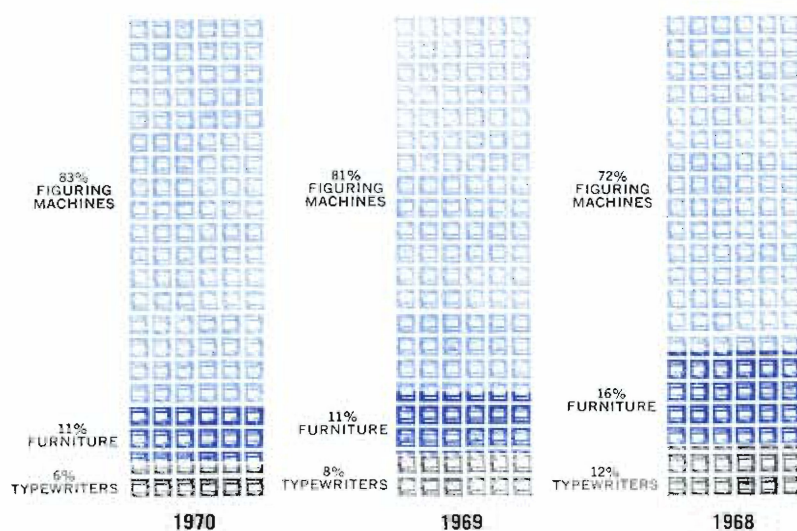
Consolidated Comparison of Corporate Sales



Comparison of Sales (*Figuring Machines*)



Comparison of Products Sold by Percentage



To The Shareholders:

I am pleased to report that the Company has again achieved new records in both sales and income from operations for the year ended June 30, 1970. Sales of \$9,418,321 represent an increase of 26% over the 1969 sales of \$7,477,426, while income before extraordinary items of \$646,412 (54¢ per share) represents an increase of 38% over the comparable figure of \$467,476 (41¢ per share) in 1969. The net of extraordinary items in 1970 was a charge of \$52,230 compared with an extraordinary credit of \$203,500 in 1969. In 1970 a credit of \$64,100 was recorded in the retained earnings relating to prior years' income taxes.

As you will note, for the first time the financial statements of your Company are prepared in U.S. rather than Canadian currency. This change has been adopted by your directors after serious consideration and is the result of several factors, including the present fluctuation in the Canadian dollar rate of exchange and the fact that approximately 70% of your Company's sales are now outside of Canada.

During the past year, your Company encountered certain unforeseen problems: production delays in the third quarter; tight money conditions in North America which seriously affected the buying power of our dealers; and, principally, a significant increase in competition in the United States resulting from the increase of competitive companies to over thirty from approximately five companies only four years ago. The direct result of this increased competition, as is evident from the income statement, is the reduction in gross profit percentage. Although we expect that the market conditions should stabilize in 1972, it would appear that the price competition may worsen before it gets better.

However, our selling force and research and development programs are operating at peak efficiency and, as indicated on the balance sheet, our financial strength has never been greater. Our accounts receivable and inventory have both increased over the last year due to the tight money conditions and to our buying policies, which require six month pre-planned production schedules, but which will result in economies in the long run. This financial strength is indi-

cated by a greater increase in working capital in 1970 than in 1969.

NEW PRODUCTS

Deliveries to our dealers of the new pure MOS/LSI electronic calculators of our 412 Series commenced at the beginning of September. This series received gratifying response when displayed at the recent NOMDA dealer convention held in Pittsburgh.

The Model 412F is a four-function, twelve-digit display type machine which offers increased simplicity and ease of operation for a miniature sized calculator. The 412P is an electronic printing version of the 412F and is the first model of a line of electronic printers which we expect to have completed by December, 1971. This exceptional printer more than favorably competes with present obsolete mechanical calculators in terms of price but with the added benefits of speed, reliability and silence.

A feature of the new 412 Series is module plug-in construction which permits completely new servicing techniques.

Computerized quality control on assembly of these machines results in an extraordinarily high degree of reliability.

Several new business equipment products will be released during the 1971 fiscal year. The first of these will be the Model 442 with memory and storage capabilities. This advanced calculator was shown to our European customers at the recent SICOB exhibition in Paris and was introduced to the North American public at the BEMA show in New York City. Some additional models, now in development, will include revolutionary concepts which will maintain our tradition of being in the forefront of advanced technology in the business machine field. It is this continuing strength in the area of product development which has made a major contribution to maintaining and improving your Company's position in the world market place.

CORPORATE DEVELOPMENTS

Continual refinement of Commodore's marketing policies has resulted in a more cohesive administrative and sales organization. All three operating divisions, United States, Canada and International, have streamlined their respective organizations, resulting in improved customer

service. We are pleased to include with this Report, comments from the general managers with respect to the operations and outlooks of their respective divisions. The acquisition of key technical, sales and administrative personnel in the United States, Canada and Europe will enable us to add to our outstanding organization and keep pace with the increasing demands for our products.

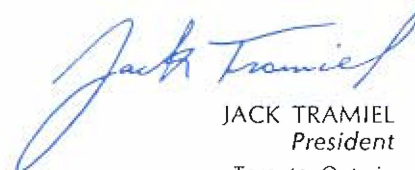
OUTLOOK

Despite the continuation of those problems which prevented us from achieving certain of the goals we had set for the current year, the future looks very encouraging indeed. We are already strong in the electronic calculator field and are continually getting stronger. Our research and development has been recognized as being in the forefront of the industry as evidenced by the recently introduced pure MOS/LSI electronic calculators. Expanded products resulting from this new technology will help our sales team to capture an ever-increasing market share.

The location of our research and development division in the center of the northern California electronic "silicon valley" has enabled it to keep abreast of developments and has been a contributing factor in the successes experienced to date in our product development.

In the office machine industry, Commodore has gained a significant expertise. We will continue to use it in all areas of product development, sales and service. We are determined to capitalize on our present lead and this, together with increasing dealer support, should allow us to continue our progress in the industry.

I fully realize that what has been accomplished to date has been in no small part due to the loyalty of our employees, distributors and suppliers throughout the world. My fellow directors join me in expressing our sincere appreciation and thanks.



JACK TRAMIEL
President

Toronto, Ontario
October 21, 1970.

United States Operation

During the last fiscal year, our division has experienced, like very many other businesses in the United States, a general slowdown in business activity, tight money, poor collections and the effects of a major trucking strike.

Despite these problems, we have found that sales in the low-priced calculator field have increased and for this reason our division is channeling all its efforts into this direction.

The orders we already have on hand for our new 412 Series calculators substantially exceed initial factory production. However, we have now had confirmation of significant increases in production and delivery of these models to meet the growing demands of our dealers.

To supplement our new product line, we have introduced a revolutionary service program. For the first time, the average office machine dealer will be able to provide immediate electronic service to his customers. Two more Full-Service Centers have just been opened in New York City and Chicago to support our dealers with even greater technical assistance. In addition, 10 Mini-Service centers are scheduled to be opened across the country in order to complement our Full-Service centers.

In equipment, service, co-operative advertising and merchandising support, we now have the most comprehensive program ever offered to our nationwide dealer organization. To further assure the total success of these new efforts, we have re-organized our field sales force to provide even greater assistance to the existing dealer organization and the 600 new dealers added this past year.

ALLEN B. FLAGG
Vice-President and General Manager

Canadian Operation

I am pleased to report that our sales of figuring machines have increased over the previous year. According to reliable surveys your Company's portable typewriter holds a significant 33% share of the market. Our furniture division has made good progress to overcome the profit squeeze brought about by the continuous increase in the cost of raw materials.

Reviewing our accounts we find that 90% of office equipment and furniture retailers purchase our products. In the past twelve months, over 500 dealers have participated in sales and service seminars, and promotional trips, including a recent visit to the manufacturing facilities in Japan.

We are looking forward with great enthusiasm to the new program of low priced electronic calculators. The 412 Series which was recently previewed is finding the broadest possible acceptance in the marketplace.

As a dealer-oriented organization, our efforts reflect our policies to cement the loyalty we have enjoyed which, combined with first-class products, has made COMMODORE successful.

I am very proud to partake in the consolidated team-work of all our employees, who are doing more than their share to build overall success for your Company.

HANS H. VOGT
Vice-President and General Manager

International Operation

During the last year, the Company's International division has been very active.

On February 15, 1971, the U.K. changes their currency system to decimal. To take advantage of this extraordinary opportunity in the business machines field, the Company formed a wholly owned subsidiary, CBM Business Machines Limited, to market COMMODORE products throughout the British Isles. This division has made excellent inroads into this new and expanding market and we expect during the next 12 months to obtain an ever increasing share of this large market for COMMODORE products.

A Commodore 'first' this year was the Company's participation in the world famous Hannover Fair where the new 412 Series of electronic calculators was shown for the first time. The reaction from buyers was very encouraging. The Company also participated in the international Trade Fair in Tel Aviv, Israel, in mid-June, where once again the response to our products was excellent.

Additional sales staff have been added during the last few months to cover the European market in greater depth, and it is anticipated that positive results of this additional sales effort will be seen very shortly.

MELVILLE E. GOULD
General Manager



COMMODORE BUSINESS MACHINES (CANADA) LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET — JUNE 30, 1970

(Expressed in United States currency — Note 1;
with comparative figures for the prior year)

ASSETS

	1970	1969
CURRENT ASSETS:		
Cash	\$ 31,289	\$ 75,837
Short-term deposits (Note 4)	568,467	632,099
Receivables —		
Trade — \$1,875,262 pledged	3,152,531	1,966,280
Notes (Note 5)	359,831	—
Other	338,247	45,503
Income taxes recoverable (Note 6)	160,000	171,651
Inventories, principally finished goods, at the lower of cost (first-in, first-out) or net realizable value	3,201,070	2,313,966
Prepaid expenses	87,226	44,750
Total current assets	<u>\$7,898,661</u>	<u>\$5,250,086</u>
INVESTMENT IN AFFILIATED COMPANY (Note 3)	<u>\$ 61,294</u>	<u>\$ 100,000</u>
PLANT AND EQUIPMENT, at cost (Note 8)	\$ 428,841	\$ 429,401
Less — Accumulated depreciation and amortization	256,223	224,462
	<u>\$ 172,618</u>	<u>\$ 204,939</u>
OTHER ASSETS:		
Manufacturing rights, development expenses, patents, trade marks, goodwill	\$ 1	\$ 1
	<u>\$8,132,574</u>	<u>\$5,555,026</u>

Approved on behalf of the Board:

Irving Gould, *Director*

Jack Tramiel, *Director*

LIABILITIES

CURRENT LIABILITIES:

Advances from finance companies — secured by trade receivables
Accounts payable and accrued liabilities (Note 4)
Income taxes payable (Notes 6 and 7)
Total current liabilities

1970	1969
\$ 766,722	\$ 627,797
3,738,990	2,096,518
13,500	45,675
<u>\$4,519,212</u>	<u>\$2,769,990</u>

SHAREHOLDERS' EQUITY:

Capital stock —

Preference

Authorized 100,000 redeemable,
6% cumulative shares of \$10 par value; none issued

Common

Authorized 3,000,000 shares of no par value;
issued 1,215,076 5/20 in 1970 and
1,160,541 5/20 in 1969 (Note 9)

<u>\$1,756,084</u>	<u>\$1,521,940</u>
--------------------	--------------------

Surplus —

Retained earnings

Contributed surplus — no change during the years

\$1,630,498	\$1,036,316
226,780	226,780
<u>\$1,857,278</u>	<u>\$1,263,096</u>
<u>\$3,613,362</u>	<u>\$2,785,036</u>
<u>\$8,132,574</u>	<u>\$5,555,026</u>

The accompanying notes to financial statements are an integral part of this statement.



COMMODORE BUSINESS MACHINES (CANADA) LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(Expressed in United States currency — Note 1)

For the Year Ended June 30, 1970

(with comparative figures for the prior year)

	<u>1970</u>	<u>1969</u>
NET SALES	\$9,418,321	\$7,477,426
COST OF GOODS SOLD	<u>6,518,657</u>	<u>4,912,999</u>
Gross profit	<u>\$2,899,664</u>	<u>\$2,564,427</u>
OPERATING EXPENSES:		
Selling	\$1,145,957	\$1,027,686
General and administrative	855,627	691,755
Interest and financial charges	<u>256,206</u>	<u>165,531</u>
	<u>\$2,257,790</u>	<u>\$1,884,972</u>
Income from operations before income taxes	\$ 641,874	\$ 679,455
INCOME TAX PROVISION (RECOVERY) (Note 7)	<u>(4,538)</u>	<u>211,979</u>
Income for the year before extraordinary credits (charges)	<u>\$ 646,412</u>	<u>\$ 467,476</u>
EXTRAORDINARY CREDITS (CHARGES):		
Reduction in income tax provision due to loss carry-forward from prior years	\$ 36,000	\$ 203,500
Gain on foreign exchange (Note 1)	48,898	—
Other (Note 10)	<u>(137,128)</u>	<u>—</u>
	<u>\$ (52,230)</u>	<u>\$ 203,500</u>
Net income for the year	<u>\$ 594,182</u>	<u>\$ 670,976</u>
EARNINGS PER COMMON SHARE (Note 11):		
Income for the year before extraordinary credits (charges)	<u>\$.54</u>	<u>\$.41</u>
Net income for the year	<u>\$.50</u>	<u>\$.58</u>

The accompanying notes to financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Expressed in United States currency — Note 1)

For the Year Ended June 30, 1970

(with comparative figures for the prior year)

	1970	1969
BALANCE, BEGINNING OF YEAR:		
As previously reported	\$ 972,216	\$ 301,240
Adjustment related to prior years' taxes (Note 6)	64,100	64,100
As adjusted	\$1,036,316	\$ 365,340
Net income for the year	594,182	670,976
BALANCE, END OF YEAR	<u>\$1,630,498</u>	<u>\$1,036,316</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Expressed in United States currency — Note 1)

For the Year Ended June 30, 1970

(with comparative figures for the prior year)

	1970	1969
WORKING CAPITAL, BEGINNING OF YEAR	<u>\$2,480,096</u>	<u>\$1,725,174</u>
SOURCE OF FUNDS:		
From operations —		
Net income for the year	\$ 594,182	\$ 670,976
Depreciation and amortization	78,761	61,260
Write-down of investment in affiliated company (Note 3)	62,500	—
	<u>\$ 735,443</u>	<u>\$ 732,236</u>
Sale of common stock for cash pursuant to exercise of options and warrants	234,144	151,603
	<u>\$ 969,587</u>	<u>\$ 883,839</u>
APPLICATION OF FUNDS:		
Investment in affiliated company (Note 3)	\$ 23,794	\$ 100,000
Purchase of plant and equipment	46,440	28,917
	<u>\$ 70,234</u>	<u>\$ 128,917</u>
Increase in working capital	\$ 899,353	\$ 754,922
WORKING CAPITAL, END OF YEAR	<u>\$3,379,449</u>	<u>\$2,480,096</u>

The accompanying notes to financial statements are an integral part of these statements.



1. CHANGE IN REPORTING PRACTICE

The Company's financial reporting practice has been changed for fiscal 1970 from Canadian to United States currency. Comparative figures for fiscal 1969 have been restated to conform with the new reporting practice. Current assets and current liabilities were translated at year-end rates of exchange. All other assets and liabilities were translated at historical rates. Income, costs and expenses were translated at average rates prevailing during each period.

The following table compares the Company's consolidated earnings per share for fiscal 1970 under its new and old reporting practices:

	1970	
	U.S.	Canadian
Net income for the year, excluding gain (loss) on foreign exchange	\$.46	\$.50
Gain (loss) on foreign exchange	.04	(.09)
Net income for the year	<u>\$.50</u>	<u>\$.41</u>

The gain (loss) on foreign exchange reflects the Canadian government's decision as of June 1, 1970, to permit the Canadian currency to float in the international money market, resulting in the Canadian currency rising by June 30, 1970, to \$.96 (U.S. dollar equivalent) from the previous pegged rate of \$.925.

2. PRINCIPLES OF CONSOLIDATION

The Company's financial statements are consolidated as of June 30, 1970, with those of all wholly-owned subsidiaries. The method of accounting for the Company's interest in the 50% owned affiliated company is described in Note 3.

3. INVESTMENT IN AFFILIATED COMPANY

The company's investment in the 50% owned affiliate, Time Research and Development Corp., is comprised of:

Shares at Cost	\$100,000
Advances in fiscal 1970	23,794
	<u>\$123,794</u>
Write down in fiscal 1970 to estimated net realizable value	62,500
	<u>\$ 61,294</u>

4. SHORT-TERM DEPOSITS

The amount of \$568,467 represents funds on deposit in the Swiss-Israel Trade Bank as of June 30, 1970, which are pledged as collateral against letters of credit issued by that bank. The letters of credit are also secured by a \$1,000,000 guarantee by a company in which the family of a director has a substantial interest.

5. NOTES RECEIVABLE

These notes, bearing interest at the rate of 14.2%, represent loans to Steadman Industries Limited, Toronto, Canada, in which the Chairman and another Director of the Company hold similar positions.

The notes were repaid in full on October 20th, 1970.

6. INCOME TAXES RECOVERABLE

(i) United States —

The Company's U.S. subsidiary previously filed claims for refund of \$283,995 of income taxes paid for fiscal years 1962 to 1964. These claims arose from the carry-back of losses incurred during fiscal years 1965 to 1967. The Internal Revenue Service contested the claims for refund and proposed substantial disallowances for fiscal years 1963 to 1965. The Company did not agree with the position of the Internal Revenue Service and contested the disallowances. During 1968, the claim receivable balance was reduced by \$136,995, the estimated effect of the proposed disallowances. Certain items were settled in the Company's favour during 1970, and, as a result, a retroactive adjustment of \$64,100 has been made to retained earnings as of June 30, 1968.

The Company's U.S. tax attorney is of the opinion that the Company will prevail on a substantial portion of the re-

maining contested disallowance. However, because of the contingency involved, the Company intends to record additional adjustments only as final settlements are reached.

(ii) Canada —

Income taxes otherwise payable for fiscal 1970 of approximately \$36,000 were eliminated by carry-forward of prior year's loss. No further losses are available as of June 30, 1970, for reduction of future income taxes.

7. PROVISION FOR INCOME TAXES

The significant variation from the customary relationship between provision for income taxes and income before income taxes for the year ended June 30, 1970, arises substantially because of the following:

- The provision has been reduced by a credit of \$45,000 representing the tax benefit from the carry-back of the U.S. subsidiary's fiscal 1970 loss to prior years.
- The substantial proportion of consolidated income from operations for fiscal 1970 was contributed by a subsidiary incorporated in a jurisdiction which does not levy income taxes.

8. LEASE COMMITMENTS

At June 30, 1970, virtually all of the premises utilized by the Company and its subsidiaries were occupied under long-term leases which expire at various dates to April, 1984. Aggregate rental commitments remaining under these lease contracts were approximately \$1,256,000 at June 30, 1970, including \$115,000 within one year.

9. CAPITAL STOCK OPTIONS

The following shares have been reserved:

- For the exercise of share purchase warrants which entitle the holders thereof to purchase fully-paid, non-assessable common shares at the exercise price on or before the date at which the warrants become void:

Series	Void After	Warrants Issued	Exercise Price \$ Can.	Warrants Outstanding	Shares Reserved
"A"	Nov. 1, 1974	200,000	\$4.50	195,925	
"B"	May 1, 1975	120,000	\$5.50	80,000	
"C"	Apr. 1, 1976	120,000	\$5.50	95,000	370,925

- For options granted to employees to purchase fully-paid and non-assessable common shares (in Canadian currency):

At \$3.25 per share	1,580
At \$9.00 per share	2,500
At \$9.45 per share	1,000
	<u>5,080</u>
	<u>376,005</u>

10. OTHER EXTRAORDINARY CHARGES

The following extraordinary charges were grouped and reflected on the June 30, 1970, Consolidated Statement of Income:

Write-down of investment in 50% owned affiliate (Note 3)	\$ 62,500
Loss on purchases of stock in connection with proposed acquisition, which was not consummated	31,628
Extraordinary fees in connection with establishment of foreign operations	43,000
	<u>\$137,128</u>

11. EARNINGS PER SHARE

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the fiscal year.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid or payable by the Company and its subsidiaries for the year was \$117,815.

To the Shareholders of Commodore Business Machines (Canada) Limited:

We have examined the consolidated balance sheet of COMMODORE BUSINESS MACHINES (CANADA) LIMITED (an Ontario corporation) AND ITS WHOLLY-OWNED SUBSIDIARIES as of June 30, 1970, and the related consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Commodore Business Machines (Canada) Limited and its wholly-owned subsidiaries as of June 30, 1970, and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Toronto, Ontario
October 20, 1970

Directors Irving Gould, *Toronto, Ontario*
Jack Tramiel, *Watsonville, Calif.*
Thomas McGourty, *Aptos, Calif.*
David M. Perlmutter, *C.A., Toronto, Ontario*
Howard L. Beck, *Toronto, Ontario*

Officers Irving Gould, *Chairman of the Board*
Jack Tramiel, *President*
Thomas McGourty, *Vice-President, Manufacturing*
David M. Perlmutter, *C.A., Secretary*
Frederick S. Draper, *Assistant Secretary*
Howard L. Beck, *Assistant Secretary*

Canadian Operation:
Hans H. Vogt, *Vice-President and General Manager*

United States Operation:
Allen B. Flagg, *Vice-President and General Manager*

International Operation:
Melville E. Gould

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Auditors Arthur Andersen & Co., Toronto, Ontario

Counsel Davies, Ward & Beck, Toronto, Ontario

Shares Listed Canadian Stock Exchange, Montreal

commodore



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